MODULE TWO

331301000-KM-02

EXERCISE BOOKLET: THE ACCOUNTING CYCLE

Urisha Deochand
FACILITATOR

Contents

The Accounting Cycle

Definition

The Accounting Cycle is a step-by-step process used by businesses to record, classify, summarise and report financial transactions during an accounting period.

Explain to learners:

"Think of the accounting cycle as the journey every financial transaction takes from the moment it happens until it appears in the company's financial statements."

Why is the Accounting Cycle Important?

The accounting cycle helps businesses:

- Record every transaction accurately.
- Reduce errors.
- Detect fraud.
- Produce reliable financial statements.
- Make informed business decisions.
- Comply with legislation and auditing requirements.

Step 1 – Analyse Transactions

Definition

Every transaction must first be analysed before it is recorded.

Example

Smart Path receives R5,000 from a learner for a bookkeeping course.

The business received money for services.

Accounts affected:

- Bank (Asset increases)
- Training Income (Revenue increases)

Step 2 – Record Journal Entries

Example

Bank (Debit) — R5,000

Training Income (Credit) — R5,000

The journal tells the story of every transaction.

Nothing should skip the journal.

Step 3 – Post to the Ledger

Definition:

The ledger groups transactions by account.

Instead of seeing all transactions mixed together, the ledger shows:

- All Bank transactions
- All Sales transactions
- All Rent transactions

Think of the journal as your diary.

Think of the ledger as your filing cabinet.

Step 4 – Prepare the Trial Balance

We prepare a Trial Balance.

The Trial Balance checks whether:

Total Debits = Total Credits

Important:

A balanced trial balance does not always mean there are no errors.

Some mistakes will still balance.

Step 5 – Adjusting Entries

Some transactions happen but haven't yet been recorded correctly.

Examples include:

- Depreciation
- Accrued expenses
- Prepaid expenses

- Outstanding income

Adjustments ensure the financial statements are accurate.

Step 6 – Prepare Financial Statements

After all adjustments have been made, financial statements can be prepared.

These include:

- Statement of Profit or Loss (Income Statement)
- Statement of Financial Position (Balance Sheet)
- Cash Flow Statement (if applicable)

  These reports are used by:

- Owners
- Managers
- Investors
- Banks
- SARS
- Auditors

Practical Example

Let's follow one transaction through the accounting cycle.

Transaction

Smart Path purchases computers for R20,000 using EFT.

Step 1

Analyse

Accounts affected:

- Computers (Asset ↑)
- Bank (Asset ↓)

Step 2

Journal

Debit Computers

Credit Bank

Step 3

Ledger

Post to:

- Computers Account
- Bank Account

Step 4

Trial Balance

Balances updated.

Step 5

Adjustments

None required immediately.

Step 6

Financial Statements

Computers appear as a non-current asset.

Bank balance decreases.

Discussion Questions

- Which step do you think is the most important?
- Can the accounting cycle continue if one step is skipped?
- Why is accuracy important?
- Which step do auditors focus on most?

Common Learner Misconceptions

Clarify these points:

- ❌ The journal and ledger are **not** the same.

- ❌ A trial balance is **not** a financial statement.
- ❌ A balanced trial balance does **not** guarantee there are no errors.
- ❌ Every transaction affects **at least two accounts** because of the double-entry system.

Knowledge Check

1. What is the accounting cycle?
2. Name the six steps in order.
3. Why is the journal called the Book of Original Entry?
4. What is the purpose of the ledger?
5. What is the purpose of a trial balance?
6. Why are adjustments necessary?
7. Which reports are produced at the end of the accounting cycle?

Double-Entry Accounting

Double-entry accounting with the principle that **every transaction has a debit and a credit**, and that the accounting equation is **Assets = Liabilities + Equity**.

Learning Objective

By the end of this lesson, learners should be able to:

- Define double-entry accounting.
- Explain why every transaction affects at least two accounts.
- Distinguish between debits and credits.
- Apply the basic debit and credit rules.
- Record simple transactions correctly.
- Explain how double entry keeps the accounting records balanced.

Introduction

When a business buys something, does only one thing change?

Definition

Double-entry accounting is a system in which every financial transaction is recorded in at least two accounts.

One account is debited and another account is credited.

The total value of debits must always equal the total value of credits.

“Double entry does not mean recording the same transaction twice by mistake. It means recording both sides of the same transaction.”

Why Double Entry is Important

Double-entry accounting:

- Records the complete effect of a transaction.
- Keeps the accounting records balanced.
- Helps identify errors.
- Supports the preparation of the trial balance.
- Produces reliable financial statements.
- Shows where money came from and where it went.

“Why would a business need to know both sides of a transaction?”

- To track what was received.
- To track what was paid or owed.
- To prepare correct reports.
- To prevent missing information.

The Accounting Equation

The accounting equation is:

Assets = Liabilities + Owner’s Equity

- Assets are resources the business owns or controls.
- Liabilities are amounts the business owes.
- Owner’s Equity is the owner’s interest in the business.

Every transaction must keep this equation balanced.

Example

The owner invests R50,000 into the business.

- Bank increases by R50,000.
- Owner’s Equity increases by R50,000.

After the transaction:

- Assets increase.
- Equity increases.
- The accounting equation remains balanced.

Understanding Debits and Credits

A debit is an entry on the left side of an account.

A credit is an entry on the right side of an account.

Important:

“Debit does not automatically mean money coming in, and credit does not automatically mean money going out.”

The meaning depends on the type of account.

Basic Debit and Credit Rules

Use the following classroom table:

Account Type	Increase	Decrease
Assets	Debit	Credit
Liabilities	Credit	Debit
Owner's Equity	Credit	Debit
Income	Credit	Debit
Expenses	Debit	Credit
Drawings	Debit	Credit

A useful memory aid is:

DEAD CLIC

Debit increases:

- Drawings
- Expenses
- Assets

Credit increases:

- Liabilities
- Income
- Capital

"This memory aid helps you identify which side increases each account type."

Step-by-Step Method for Recording a Transaction

Use these six steps:

1. Identify the transaction.
2. Identify the accounts affected.
3. Classify each account.
4. Decide whether each account increases or decreases.
5. Apply the debit and credit rules.

6. Check that total debits equal total credits.

Worked Example 1 – Owner Invests Cash

Transaction

The owner invests R30,000 into the business bank account.

Step 1: Identify the accounts

- Bank
- Owner's Capital

Step 2: Classify the accounts

- Bank is an asset.
- Owner's Capital is equity.

Step 3: Determine the movement

- Bank increases.
- Capital increases.

Entry

Account	Debit	Credit
Bank	R30,000	
Owner's Capital		R30,000

Explain:

- Assets increase with a debit.
- Capital increases with a credit.

Worked Example 2 – Paying Rent

Transaction

The business pays rent of R8,000 by EFT.

Accounts affected

- Rent Expense
- Bank

Classification

- Rent is an expense.

- Bank is an asset.

Movement

- Rent Expense increases.
- Bank decreases.

Entry

Account	Debit	Credit
Rent Expense	R8,000	
Bank		R8,000

- Expenses increase on the debit side.
- Assets decrease on the credit side.

Worked Example 3 – Cash Sale

Transaction

The business receives R5,000 cash for services provided.

Accounts affected

- Bank
- Service Income

Classification

- Bank is an asset.
- Service Income is income.

Entry

Account	Debit	Credit
Bank	R5,000	
Service Income		R5,000

- The asset increases.
- Income increases.

Worked Example 4 – Buying Equipment for Cash

Transaction

The business buys office equipment for R12,000 cash.

Accounts affected

- Office Equipment
- Bank

Classification

Both accounts are assets.

Movement

- Office Equipment increases.
- Bank decreases.

Entry

Account	Debit	Credit
Office Equipment	R12,000	
Bank		R12,000

Ask learners:

“Can two asset accounts be affected in one transaction?”

Answer:

Yes. One asset may increase while another asset decreases.

Worked Example 5 – Buying Stock on Credit

Transaction

The business purchases inventory worth R7,500 from a supplier on credit.

Accounts affected

- Inventory
- Creditors or Accounts Payable

Classification

- Inventory is an asset.
- Creditors is a liability.

Entry

Account	Debit	Credit
Inventory	R7,500	
Creditors		R7,500

The business receives stock now but will pay later.

T-Accounts

A T-account is a visual representation of an account.

The left side is the **debit side**.

The right side is the **credit side**.

Example:

Bank Account

Debit	Credit
Owner's Capital R30,000	Rent R8,000
Service Income R5,000	Equipment R12,000

Why Debits Must Equal Credits

Every transaction has equal value on both sides.

If the business receives equipment worth R10,000, the other side of the transaction must also be R10,000.

This ensures:

- The accounting equation stays balanced.
- The trial balance can be prepared.
- Errors are easier to identify.

Important:

A balanced system does not guarantee that every entry is correct.

A transaction may be posted to the wrong account and still balance.

Common Learner Misconceptions

Clarify these carefully:

- A debit does not always mean money received.
- A credit does not always mean money paid.
- Bank is an asset in the business records.
- A loan received is not income.
- Equipment purchased is not always an expense.
- Drawings are not a business expense.
- Every transaction must have equal debit and credit totals.

Classroom Activity 1 – Identify the Accounts

Identify the two accounts affected:

1. Paid electricity by EFT.
2. Received cash from a customer.
3. Purchased furniture on credit.
4. Owner withdrew cash.
5. Paid a supplier.

Classroom Activity 2 – Debit or Credit?

Complete the following:

Transaction	Debit	Credit
Paid wages R4,000	?	?
Received service income R6,000	?	?
Bought vehicle on credit R80,000	?	?
Owner withdrew R1,500	?	?

Exercise

Scenario

Smart Path completes the following transactions:

1. Owner invests R100,000.
2. Pays rent of R10,000.
3. Purchases computers for R25,000 cash.
4. Receives course fees of R18,000.

5. Buys stationery on credit for R3,000.

- Identify the accounts affected.
- Classify each account.
- Decide which account is debited.
- Decide which account is credited.
- Check that debits equal credits.

Transaction	Debit	Credit
Owner investment		
Rent payment		
Computer purchase		
Course fees received		
Stationery on credit		

Knowledge Check

1. What is double-entry accounting?
2. How many accounts are affected by a transaction?
3. What does a debit represent?
4. What does a credit represent?
5. Which account types increase on the debit side?
6. Which account types increase on the credit side?
7. Why must debits equal credits?
8. Is a loan received considered income?
9. Is equipment always treated as an expense?
10. What is the purpose of a T-account?

Examples of T-Accounts

A **T-account** is a simple way of showing the movements in one account.

- The **left side** is the **Debit** side.
- The **right side** is the **Credit** side.

Account Name

Debit | Credit

|

Example 1: Owner Invests Cash

Transaction

The owner invests **R50,000** into the business.

Double-entry

- Debit Bank R50,000
- Credit Capital R50,000

Explanation

The business receives money, so **Bank increases**.

Bank is an asset, and assets increase on the debit side.

The owner's investment increases capital, and capital increases on the credit side.

Example 2: Paying Rent

Transaction

The business pays rent of **R8,000** by EFT.

Double-entry

- Debit Rent Expense R8,000
- Credit Bank R8,000

Rent Expense Account

Rent Expense

Debit | Credit

Bank R8000 |

Bank Account

Bank

Debit | Credit

| Rent Expense R8000

Explanation

Rent is an expense.

Expenses increase on the debit side.

Bank decreases because money leaves the account, so Bank is credited.

Example 3: Cash Sale

Transaction

The business receives R6,000 for services provided.

Double-entry

- Debit Bank R6,000
- Credit Service Income R6,000

Bank Account

Bank

Debit | Credit

Service Income |

R6,000 |

Service Income Account

Service Income

Debit | Credit

| Bank R6,000

Explanation

Bank increases because the business receives money.

Income also increases, and income increases on the credit side.

Example 4: Buying Equipment for Cash

Transaction

The business buys computer equipment for **R15,000 cash**.

Double-entry

- Debit Computer Equipment R15,000
- Credit Bank R15,000

Computer Equipment Account

Computer Equipment

Debit | Credit

Bank R15,000 |

Bank Account

Bank

Debit | Credit

| Computer Equipment R15,000

Explanation

The business gains equipment, so the asset increases.

The business loses cash, so Bank decreases.

Both accounts are assets, but one increases while the other decreases.

Example 5: Buying Stock on Credit

Transaction

The business purchases stock worth R12,000 on credit.

Double-entry

- Debit Inventory R12,000
- Credit Creditors R12,000

Inventory Account

Inventory

Debit | Credit

Creditors R12000 |

Creditors Account

Creditors

Debit | Credit

| Inventory R12000

Explanation

Inventory increases, so it is debited.

The business now owes the supplier money, so the liability called Creditors increases and is credited.

Example 6: Paying a Supplier

Transaction

The business pays a supplier R5,000.

Double-entry

- Debit Creditors R5,000
- Credit Bank R5,000

Creditors Account

Creditors

Debit | Credit

Bank R5000 |

Bank Account

Bank

Debit | Credit

| Creditors R5,000

Explanation

The amount owed to the supplier decreases.

Liabilities decrease on the debit side.

Bank decreases on the credit side.

Example 7: Owner Withdraws Cash

Transaction

The owner withdraws **R2,000** for personal use.

Double-entry

- Debit Drawings R2,000
- Credit Bank R2,000

Drawings Account

Drawings

Debit | Credit

Bank R2000 |

Bank Account

Bank

Debit | Credit

| Drawings R2,000

Explanation

Drawings increase on the debit side.

Bank decreases because money leaves the business.

Drawings are not a business expense. They reduce the owner's equity

---

Example 8: Combined Bank T-Account

Assume the business completes these transactions:

1. Owner invests R50,000.
2. Receives service income of R6,000.
3. Pays rent of R8,000.
4. Buys equipment for R15,000.
5. Owner withdraws R2,000.

Bank

Debit | Credit

Owner's Capital R50,000 | Rent Expense R8,000

Service Income R6,000 | Equipment R15,000

| Drawings R2,000

Calculate the balance

Total debit:

R50,000 + R6,000 = **R56,000**

Total credit:

R8,000 + R15,000 + R2,000 = **R25,000**

Balance:

R56,000 − R25,000 = **R31,000 debit balance**

Bank

Debit | Credit

Owner's Capital R50,000 | Rent Expense R8,000

Service Income R6,000 | Equipment R15,000

| Drawings R2,000

| Balance c/d R31,000

Total R56,000 | Total R56,000

The bank account has a **debit balance of R31,000**.

Classroom Exercise

Ask learners to draw T-accounts for the following:

1. Paid electricity of R1,500.
2. Received course fees of R10,000.
3. Purchased furniture on credit for R7,000.
4. Paid a creditor R3,000.
5. Owner invested R20,000.

Exercise: Double-Entry and T-Accounts

Business Scenario

Smart Path Bookkeeping Services started trading on 1 March 2026.

During March, the following transactions took place:

1. The owner invested R80,000 into the business bank account.
2. The business bought computer equipment for R18,000 cash.
3. Office furniture worth R12,000 was purchased on credit from Office World.
4. The business paid rent of R8,000 by EFT.
5. Bookkeeping services of R15,000 were provided for cash.
6. Bookkeeping services of R10,000 were provided on credit to Bright Star Traders.
7. Stationery costing R2,500 was purchased for cash.
8. The business paid Office World R5,000 towards the amount owed.
9. Bright Star Traders paid R6,000 towards their account.
10. The business received a bank loan of R20,000.
11. Electricity of R1,800 was paid by EFT.
12. The owner withdrew R3,000 for personal use.
13. Advertising of R2,200 was paid by EFT.
14. The business received R7,500 cash for bookkeeping services.
15. The remaining amount owed to Office World was paid.

Learner Instructions

For each transaction:

1. Identify the two accounts affected.

2. Classify each account as:
    - Asset
    - Liability
    - Owner's Equity
    - Income
    - Expense
    - Drawings
3. Decide whether each account increases or decreases.
4. Decide which account must be debited.
5. Decide which account must be credited.
6. Record the transaction in the journal.
7. Post each transaction to the relevant T-accounts.
8. Balance the accounts at the end of the exercise.
9. Prepare a trial balance.

Part A: Transaction Analysis

Complete the table below.

No.	Accounts Affected	Account Classification	Increase/Decrease	Debit	Credit
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					

14					
15					

Part B: General Journal

Record the transactions in the journal.

Date	Account Debited	Debit	Account Credited	Credit
1 Mar				
2 Mar				
3 Mar				
4 Mar				
5 Mar				
6 Mar				
7 Mar				
8 Mar				
9 Mar				
10 Mar				
11 Mar				
12 Mar				
13 Mar				
14 Mar				
15 Mar				

Part C: T-Accounts

Learners must prepare the following T-accounts:

- Bank
- Computer Equipment
- Office Furniture
- Creditors: Office World
- Rent Expense
- Service Income
- Debtors: Bright Star Traders

- Stationery Expense
- Bank Loan
- Electricity Expense
- Drawings
- Advertising Expense
- Owner's Capital

Trial Balance

Smart Path Bookkeeping Services

Trial Balance as at 31 March 2026

Account	Debit	Credit
Bank	R81,000	
Computer Equipment	R18,000	
Office Furniture	R12,000	
Debtors: Bright Star Traders	R4,000	
Rent Expense	R8,000	
Stationery Expense	R2,500	
Electricity Expense	R1,800	
Drawings	R3,000	
Advertising Expense	R2,200	
Owner's Capital		R80,000
Bank Loan		R20,000
Service Income		R32,500
Total	R132,500	R132,500

Discussion Questions

1. Why does the Creditors account have no closing balance?
2. Why does the Debtors account still have a balance?
3. Why is the Bank Loan credited?
4. Why is Drawings not recorded as an expense?
5. Why does Service Income have a credit balance?

6. What does the debit balance in Bank represent?
7. How do we know the double-entry system is balanced?

The General Ledger

Learning Outcomes

By the end of this lesson learners will be able to:

- Explain what a General Ledger is.
- Explain why the General Ledger is important.
- Post transactions from the General Journal to the General Ledger.
- Balance ledger accounts.
- Prepare a Trial Balance from the General Ledger.

Introduction

"Imagine your teacher keeps every student's marks on one piece of paper. How difficult would it be to find only your marks?"

Possible answers:

- Very confusing.
- Difficult to find.
- Takes too long.
- Easy to make mistakes.

The journal is exactly like that.

It records **every transaction together**.

Businesses therefore need another book that groups similar transactions together.

That book is called the **General Ledger**.

Definition

The **General Ledger** is the principal accounting record where all financial transactions are classified into individual accounts after they have been recorded in the General Journal.

Explain:

Think of the ledger as a filing cabinet.

Each drawer contains one account.

For example:

- Bank
- Rent
- Salaries

- Equipment
- Capital

Every transaction recorded in the journal is posted into the correct drawer.

Why is the General Ledger Important?

The General Ledger allows businesses to:

- Group similar transactions.
- Determine account balances.
- Prepare the Trial Balance.
- Produce financial statements.
- Detect errors.
- Support audits.

The Flow of Information

Business Transaction

↓

General Journal

↓

General Ledger

↓

Trial Balance

↓

Financial Statements

Practical Exercise

Smart Path Training Academy

The following transactions occurred during April 2026.

1. Owner invested R100 000.
2. Purchased computers for R30 000 cash.
3. Purchased office furniture for R18 000 on credit.

4. Paid rent R12 000.
5. Received training income R25 000 cash.
6. Received R15 000 from a debtor.
7. Purchased stationery R4 000 cash.
8. Paid Office World R10 000.
9. Paid electricity R2 500.
10. Owner withdrew R5 000.

Step 1

Complete the General Journal

Date	Details	Debit	Credit

Step 2

Post to the General Ledger

Bank Account

Debit	Credit

"What is the Bank balance?"

Computers

Debit	Credit

Furniture

Debit	Credit

Creditors

Debit	Credit

"What balance remains owing?"

Service Income

Debit	Credit

Rent Expense

Debit	Credit

Electricity Expense

Debit	Credit

Stationery Expense

Debit	Credit

Drawings

Debit	Credit

Capital

Debit	Credit

Step 3

Balance Each Ledger Account

Step 4

Prepare the Trial Balance

Account	Debit	Credit
Bank		
Computers		
Furniture		
Rent Expense		
Stationery Expense		
Electricity Expense		
Drawings		
Capital		
Creditors		
Service Income		
Totals		

"The Trial Balance does **not** balance. Why?"

Classroom Activity

Divide learners into groups.

Each group must:

1. Complete the General Journal.
2. Post to the General Ledger.
3. Balance every account.
4. Prepare the Trial Balance.
5. Present their work to the class.

Discussion Questions

1. Why is the General Ledger called the **principal book of accounts**?
2. Why are transactions first recorded in the journal?
3. Why do we post to the ledger?
4. Which account is updated most frequently?

5. Why must every journal entry be posted?
6. Can financial statements be prepared without a General Ledger?
7. What happens if one ledger posting is omitted?

Common Learner Mistakes

- Posting to the wrong ledger account.
- Reversing debits and credits.
- Forgetting the reference or narration.
- Forgetting to balance accounts.
- Omitting one side of the journal entry.
- Leaving an account out of the Trial Balance.

Financial Statements

Learning Outcomes

By the end of this lesson, learners will be able to:

- Explain the purpose of financial statements.
- Identify the three main financial statements.
- Prepare a simple Statement of Profit or Loss.
- Prepare a simple Statement of Financial Position.
- Explain how financial statements assist decision-making.
- Interpret basic financial information.

Introduction

"If you owned a business, how would you know whether you made a profit this month?"

"The bank balance alone cannot tell us whether a business is successful. A business may have money in the bank but still be making a loss, or it may have little cash because it has invested in equipment. This is why businesses prepare financial statements."

Definition

Financial statements are formal reports prepared at the end of an accounting period that summarise the financial performance and financial position of a business.

They are prepared from the Trial Balance after all transactions have been recorded and posted.

Why are Financial Statements Important?

"Who would want to know whether a business is making money?"

- Owners
- Managers
- Investors
- Banks
- SARS
- Suppliers
- Auditors

Estakeholder uses the financial statements for different reasons.

User	Why they use the statements
Owner	To determine profit and business value
Manager	To make operational decisions
Bank	To assess loan applications
Investors	To decide whether to invest
SARS	To calculate taxes
Suppliers	To assess creditworthiness

The Three Main Financial Statements

Business Transactions

↓

General Journal

↓

General Ledger

↓

Trial Balance

↓

Financial Statements

1. Statement of Profit or Loss (Income Statement) – Shows whether the business made a profit or loss.
2. Statement of Financial Position (Balance Sheet) – Shows what the business owns and owes on a specific date.
3. Cash Flow Statement – Shows how cash moved into and out of the business.

For this lesson, focus on the first two statements.

Practical Exercise

Smart Path Bookkeeping Services

Use the following Trial Balance as at 31 March 2026.

Account	Debit (R)	Credit (R)
Bank	81,000	

Computer Equipment	18,000	
Office Furniture	12,000	
Debtors	4,000	
Rent Expense	8,000	
Stationery Expense	2,500	
Electricity Expense	1,800	
Advertising Expense	2,200	
Drawings	3,000	
Capital		80,000
Bank Loan		20,000
Creditors		8,000
Service Income		32,500
Totals	132,500	140,500

Step 1 – Identify Income and Expenses

"Which accounts belong in the Statement of Profit or Loss?"

Income

- Service Income

Expenses

- Rent
- Electricity
- Stationery
- Advertising

Note: Drawings, assets, liabilities, and capital do not appear in the Statement of Profit or Loss.

Step 2 – Prepare the Statement of Profit or Loss

Smart Path Bookkeeping Services

Statement of Profit or Loss

For the month ended 31 March 2026

Description	Amount (R)

Income	
Service Income	
Total Income	
Less: Expenses	
Rent Expense	
Electricity Expense	
Stationery Expense	
Advertising Expense	
Total Expenses	
Net Profit	

"Did the business make a profit or a loss?"

Step 3 – Prepare the Statement of Financial Position

The Statement of Financial Position shows:

- Assets
- Liabilities
- Owner's Equity

Assets

Current Assets:

- Bank –
- Debtors –

Non-current Assets:

- Computer Equipment –
- Office Furniture –

Total Assets =

Liabilities

- Creditors –
- Bank Loan –

Total Liabilities =

Owner's Equity

Description	Amount (R)
Capital	
Add: Net Profit	
Less: Drawings	
Closing Equity	

Accounting Equation Check

Assets = Liabilities + Equity

"Why doesn't the statement balance?"

Classroom Activity

1. Highlight all income accounts.
2. Highlight all expense accounts.
3. Calculate total income.
4. Calculate total expenses.
5. Determine net profit.
6. Classify each remaining account as:
    - Asset
    - Liability
    - Equity

Case Study

ABC Training Centre reports:

- Income: R450,000
- Expenses: R520,000

1. Did the business make a profit or a loss?
2. What might have caused the loss?
3. What actions could management take?

Common Learner Mistakes

- Including drawings as an expense.
- Including assets in the Statement of Profit or Loss.
- Forgetting to include net profit in equity.
- Misclassifying liabilities as expenses.
- Assuming the bank balance equals profit.
- Not checking whether the Statement of Financial Position balances.

Knowledge Check

1. What are financial statements?
2. Which statement shows profit or loss?
3. Which statement shows assets and liabilities?
4. What is net profit?
5. Is drawings an expense?
6. Name three users of financial statements.
7. Why must the Statement of Financial Position balance?